Housing Choice Voucher -- Homeownership Option

Tax Deductibility of Mortgage Interest and Real Estate Taxes

The U.S. Treasury Department and the Internal Revenue Service ("IRS") are authorized to interpret and enforce the provisions of the Internal Revenue Code of 1986 (the "tax code"). This includes the authority to resolve the issue of whether recipients of assistance under the homeownership option in the housing choice voucher program may deduct the amount of mortgage interest and real estate taxes that they have paid on the homes they have purchased. In order to assist in understanding how a program participant may deduct a portion of the mortgage interest and real estate taxes consistent with the guidance provided by the IRS, HUD provides the following summary and explanation. This summary and explanation does not purport to bind the Treasury or the IRS in any way, nor does it purport to bind HUD, as HUD has no authority to interpret or administer the tax code, except in those instances where it has a specific delegation.

The IRS informational letter dated August 28, 2001, advises that recipients under the homeownership option in the housing choice voucher program would probably be prohibited from deducting the full amount of mortgage interest and real estate taxes on the homes they have purchased since the homeownership assistance payments are considered to be general welfare benefits that are not includible in the income of the recipients. Implicit in the IRS information letter is that families participating in the homeownership option may deduct a portion of the mortgage interest and real estate taxes paid during the tax year. A number of public housing agencies (PHAs) have inquired as to how families should calculate the portion of mortgage interest and real estate taxes that may be deducted as a result of the information provided in the IRS letter.

While an information letter is advisory only and has no binding effect on the Internal Revenue Service, it appears that a family could deduct a percentage of the mortgage interest and real estate taxes that is equal to the percentage of the monthly homeownership expenses (as defined by the program) covered by the family (not by the housing assistance payments) during the tax year in question in keeping with the advice proffered by the IRS informational letter. For instance, if the family's monthly homeownership expenses during the tax year were $10,000 and the total housing assistance payments for the year were $3000, it appears from the informational letter that the family could deduct up to 70 percent of the mortgage interest and real estate taxes since the family covered 70 percent of the monthly homeownership expenses defined by the program.

The following examples are offered for illustrative purposes only. Individuals with specific Federal tax questions should contact the Internal Revenue Service directly or consult a tax professional.

Example #1

Assume that over the course of the tax year the applicable payment standard is $900, the family total tenant payment is $600, and the monthly homeownership assistance payment (HAP) is $300. The family's monthly homeownership expenses (as defined in 24 CFR 982.635(c)) equal $1000 per month at the beginning of the tax year and did not change throughout the tax year. The family may deduct up to 70 percent of the interest and real estate taxes on the family Federal tax return.

Total monthly homeownership expenses during tax year	= $12000
minus total HAP paid during tax year	= $ 3600
equals family share of annual homeownership expenses	= $ 8400

Percentage of annual homeownership expenses covered by family = $8400/$12000 = .70

Family may deduct 70 percent of interest and real estate taxes paid for the tax year.

Example #2

1. From January through August the applicable payment standard is $900, the family total tenant payment is $600, the monthly homeownership expenses are $1000. This results in a monthly homeownership assistance payment of $300. The effective date of the family's annual income re-certification is the first of September. September through December the applicable payment standard increased to $930 and the family total tenant payment increased to $700 as a result of an increase in income. As a result the new monthly homeownership assistance payment is $230. Monthly homeownership expenses have increased to $1010 per month.

Total monthly homeownership expenses during tax year ($8000 (Jan - Aug) + $4040 (Sept - Dec))	= $12040
Minus total HAP paid during tax year ($2400 (Jan -Aug) + $920 (Sept -Dec))	= $ 3320
Equals family share of annual homeownership expenses	= $ 8720

$8720/$12040 = .72

Family may deduct 72 percent of interest and real estate taxes paid for the tax year.

Note that monthly homeownership expenses are not simply the monthly mortgage payment (PITI). Monthly homeownership expenses include the principal and interest on initial mortgage debt, any refinancing of such debt, and any mortgage insurance premium incurred to finance purchase of the home; real estate taxes and public assessments on the home; home insurance; the PHA allowance for maintenance expenses; the PHA allowance for costs of major repairs and replacements; the PHA utility allowance for the home; principal and interest on mortgage debt incurred to finance costs for major repairs, replacements, or improvements for the home (which may include debt incurred by the family needed to make the home accessible for a family member with disabilities if the PHA determines allowance of such costs is needed as a reasonable accommodation); and land lease payments (where a family does not own fee title to the real property on which the home is located in accordance with the requirements of §982.628(b)). See 24 CFR 982.635(c).